DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SUPPLEMENTAL RECORD REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
D.T.E. 01-81

Date: February 14, 2003

Witness Responsible: Francisco C. DaFonte

DTE-RR Sup. 1-8:

Please refer to page 2 of Bay State's Motion for Clarification. The Company states that "the Company's proposal sought to limit the financial transactions (hedging) to 80 percent of domestic purchases rather than restrict the physical domestic purchases to 80 percent." Please state where this information can be found in the Company's original proposal.

Response: As described on page 4, lines 14-16, of Mr. DaFonte's prefiled testimony, Exh. BSG-1, Bay State proposed that each supply purchase would be compared with a benchmark to establish whether savings or excess costs were incurred. As further described by Mr. DaFonte, the GCIM would only apply to domestic commodity purchases. Id, lines 21-22. Thus, the Company's proposal was that each and every domestic gas supply purchase would be compared to the applicable benchmark. This is further evidenced by Exhibit FCD-4 to Mr. DaFonte's prefiled testimony, which illustrates the calculation of savings and excess costs associated with Bay State's purchases subject to the GCIM. This exhibit also includes each and every domestic purchase transaction in determining the aggregate GCIM savings or excess costs for the illustrative month. These gas purchases would occur in the same manner as they do currently and are physical purchases in that they represent the actual transaction that acquires a specified quantity of gas.

Bay State explained various aspects of the use of financial instruments associated with the GCIM both in Mr. DaFonte's prefiled testimony and in Mr. Stanley's prefiled testimony, Exh. BSG-2. In its prefiled testimony and at the evidentiary hearing conducted by the Department in this proceeding, Bay State explained that one of the controls on the use of financial instruments under the proposed program would be position limits that ensure all hedges are associated with a physical market. This is necessary to ensure that Bay State may take delivery, if necessary, of the volumes underlying each financial contract. Specifically, Mr. DaFonte noted on page 13 of his prefiled testimony that "Bay State would only utilize futures contracts to the extent that they do not exceed the Company's projected requirements to satisfy customer demand or for the purpose of satisfying its storage injection requirements." Mr. Stanley describing the position limits reflected in the Energy Supply Services Risk Management Policy applicable to Bay State's GCIM that "[t]he position limits were established based on the monthly and annual supply requirements. The position limits equate to slightly-less-than 25% of Bay State's normal year requirements". The financial contract position limits are set below normal requirements so that Bay State is still able to take delivery, if needed, of all physical quantities underlying financial contracts, even in the event of warmer-than-normal weather, which is why the position limits are not set equal to Bay State's requirements under normal weather. The need to establish position limits for financial contracts was explored by the Department at the evidentiary hearing as noted in TR 2 129-130. Thus, the record demonstrates that Bay State's proposal was to limit the use of financial instruments within the GCIM to approximately 80% of the level of domestic purchases, while at the same time including 100% of the physical domestic purchase transactions within the GCIM.

Bay State is not sure of the source of the Department's use of 80%, but believe it is the TR 129-130, which most certainly refers to financial contracts.